

Special Forces Pension Plan Board

Annual Report
1988

Alberta



SPECIAL FORCES PENSION PLAN BOARD

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**The Honourable Dick Johnston
Provincial Treasurer**

Sir:

I have the honour to submit to you the third annual report of the Special Forces Pension Plan Board for the period January 1, 1988 to December 31, 1988. The report outlines the role and responsibilities of the Special Forces Pension Plan Board and the activities undertaken during the period under review.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "J. E. Faries".

**J. E. Faries
Chairman**

Introduction

The calendar year 1988 is the third full year of operation of the Special Forces Pension Plan Board. This Board was established effective November 1, 1985 under the Special Forces Pension Plan Act. The main responsibilities of the Board are to hear appeals of administrative decisions made on pensions, and to advise the Minister responsible for public service pensions on matters relating to the Plan.

The Honourable Dick Johnston, Provincial Treasurer, is the Minister responsible for public service pensions. The Plan is administered by Alberta Treasury, Payroll and Pensions Division.

The Board's appellate role has evolved with a trend toward more detailed presentation of arguments by each party. Procedure, however, remains informal, permitting easy access to right of appeal by participants. Two appeals have been summarized in this report.

In its advisory role, the Special Forces Pension Plan Board has provided advice to the Minister in the context of his ongoing review of the government guaranteed pension plans. In July 1988, the Minister advised the Boards of the government administered pension plans that he would not be proceeding with major pension reforms at this time. Advice provided by the Special Forces Pension Plan Board on a number of significant issues is outlined in this report.

The Board

Members

A Board of six members served throughout 1988. Terms of members with expiry date of April 1, 1988 were extended to April 1, 1992. Brief biographies are provided on the following page.

Mr. J. A. Pare, a representative of the Alberta Urban Municipalities Association, resigned before the completion of his term and was replaced by Mr. A. J. Habstritt in April 1988. Mr. Pare had served with this Board since its inception on November 1, 1985, and also with the previous Board since May 9, 1984. The Board acknowledges the contribution of Mr. Pare.

Program Delivery

With the exception of the Chairman, Board members serve on a part-time basis. The Chairman also serves as Chairman of the Boards of four other government administered pension plans. A small staff provides professional and administrative services to this Board and to the other Boards.

As in 1987, a seminar was held in 1988 to provide information to members of the five Pension Boards and to recognize those departing from the Boards. Various employee and employer representatives, and personnel from Payroll and Pensions Division of Alberta Treasury also attended the seminar.

To assist the Board in its advisory role, employees, employers, and interested groups are encouraged to express their views and concerns on policy issues to the Chairman or their representative Board members. Where appropriate, presentations on an issue may be made to the Board as a whole.

The Board met four times in the period under review. Board minutes are recorded but are not made public.

Special Forces Pension Plan Board Members as at December 31, 1988

J. E. Faries

Mr. Faries is Chairman of the Board and brings to the Board considerable background in pension policy and administration. He served over 15 years as Director of the Pension Administration. Mr. Faries was chairman and instructor for the Employee Benefit Administration Certificate program of the University of Alberta for a number of years. Currently he holds several senior positions on other boards and community organizations. His term of office expires on April 1, 1992.

A. F. (Chip) Collins

Mr. Collins, the government representative, is Vice-Chairman of the Board. He served as Deputy Provincial Treasurer from 1972 until his retirement in 1984. Mr. Collins brings to the Board extensive financial, administrative, and senior public service experience. His term of office expires on April 1, 1991.

M. P. Dungey

Mr. Dungey joined the Calgary Police Service in 1971 and since that time his police work has been in many areas. Currently he is a staff sergeant on a leave of absence as President of the Calgary Police Association. Mr. Dungey has served as President of the Alberta Police Federation since May 1987. His term of office expires on April 1, 1992.

G. Hopman

Mr. Hopman held various posts with the City of Lethbridge since 1958 before assuming his current position as Director of Human Resources. He is a sessional instructor at the University of Lethbridge School of Management and Lethbridge Community College. Mr. Hopman also serves on the AUMA Labour Relations Advisory Committee, and is Chairman of the Human Resources Advisory Committee at the University of Lethbridge School of Management. His term of office expires on April 1, 1991.

N. E. Koch

Mr. Koch served with the Royal Canadian Mounted Police from 1951 to 1955. He then joined the Edmonton City Police, and served to his retirement in 1983. Mr. Koch has been heavily involved in police union activities, serving as President of the Edmonton Police Association, President of the Alberta Federation of Police Associations and as Director, Canadian Police Association. He is currently business manager of the Edmonton Police Association. His term of office expires on April 1, 1991.

A. J. Habstritt

Mr. Habstritt was appointed to the Board in April 1988. He holds a CMA designation and is a graduate of the Banff School of Advanced Management. Mr. Habstritt joined the City of Calgary in 1968 and has held his current position of City Treasurer since 1986. He is a member of several other boards and is active in a number of financial planning associations. His term of office expires on April 1, 1992.

Applications and Appeals

Provisions

The Act provides that application may be made to the Board for time limit extensions or change of benefit choice. It also provides that a party aggrieved by a decision of the Minister may appeal to the Board. The provisions of the Act dealing with applications and appeals, Sections 10 and 35 respectively, are reproduced for ease of reference in Appendix A.

Parties aggrieved by a decision of the Board under Section 35 of the Act may appeal to the Court of Queen's Bench. Appeals to the Court of Queen's Bench may be made only on a question of law or jurisdiction. Such appeals must be made within 30 days.

Application may also be made to the Board for extension of time limits under the reciprocal agreement with the Local Authorities Pension Plan. The following time limits apply under the agreement; that the break in contributory service must be no more than three months, and that application for transfer must be made within one year of commencing contributions with the new employer. The Board considers extenuating circumstances put forth by the applicant in making its decision.

Procedure

A Notice of Appeal form, prescribed by the Minister, is normally provided with adverse administrative decisions. This form must be completed and submitted in filing an appeal. It may also be used for applications for time limit extensions.

Assistance to appellants is available from the Chairman's office. The individual may seek advice on what facts should be gathered and how they should be presented.

Though hearings are conducted in an informal manner, the Board adheres to the principles of natural justice and the duty to be fair.

The Chairman is authorized to reimburse appellants and applicants appearing before the Board for reasonable travel and subsistence expenses. This ensures that all appellants and applicants have the opportunity to appear and present their cases irrespective of their place of residence.

Summary of Applications and Appeals

During 1988, the Board did not hear any applications for extension of time limits, or change of benefit choice, under Section 10 of the Act.

Three appeals under Section 35 were heard in 1988, one of which was decided and is summarized below. The other two appeals were held over beyond the end of the period under review.

No applications for extension of reciprocal agreement time limits were heard by the Board in 1988.

Summary of Appeal Case

The appellant had retired and had started to receive a pension from the Special Forces Pension Plan. He then commenced employment with another employer under the Special Forces Pension Plan on a contract basis. Shortly afterwards, the Minister suspended the pension pursuant to Section 20 of the Regulations. The appellant argued that his contract for service did not constitute employment as defined in the Regulations under the Act. He also stated that he had been advised by his previous employer that the pension would not be affected by his re-employment on a contract basis, and he had relied on this information to his detriment.

The Board considered that the appellant had been "engaged to work for an employer" within the meaning of the Regulations under the Act. On this basis the Board denied the appeal.

Advisory Role

Board's Recommendations

A review of the funding and policies relating to each of the pension plans guaranteed by the Province of Alberta was commenced in 1985 by Alberta Treasury. The Minister has advised the Boards that their views will be taken into consideration during this review. In July 1988, the Minister notified the Boards that he would not be proceeding with major pension reforms at this time.

The Board has provided advice in respect of a number of significant issues which impact on the Plan. The following is an outline of the issues and recommendations made.

Funding for Current Service

Both the March 31, 1988 actuarial valuation and the previous valuation at March 31, 1985 disclosed a significant underfunding of the Special Forces Pension Plan for current service. For reference, the March 31, 1988 results are summarized in Appendix B. In February 1987, based on the 1985 valuations, the Board recommended that both employee and employer contributions be increased by 1/2 percent per year for the next three years. In response, the Minister advised that increasing contribution rates is one of the issues being considered in the review of the government guaranteed plans. In December 1988, the Board reaffirmed its previous recommendation regarding increases to employee and employer contributions.

In the Board's view, contribution rates should ultimately rise to levels required for current service as if the plan were a large private sector pension plan. An independent actuary commissioned by the Board advised that, in his opinion, the actuarial assumptions and method used for the actuarial valuations commissioned by Alberta Treasury were 'overly conservative' when measured against the Board's criterion. Based on this advice, the Board recommended to the Minister in September 1988 that an actuarial valuation utilizing less conservative actuarial assumptions and method be conducted. This alternate valuation would aid the Board in formulating advice on employee and employer contribution rates.

Proposed Registration Rules for Pension Plans

It was proposed by the Federal Minister of Finance in March 1988 that many of the pension plan registration rules, currently found in a Revenue Canada information circular, be encoded in the Income Tax Act. The proposed changes will impact on the plan in several ways, most significantly the proposed limits on early retirement pensions.

In December 1988, the Board recommended to Alberta Treasury that an actuary analyze the effects on the plans of the proposed registration requirements. As of December 31, 1988, this analysis was in abeyance pending finalization of the federal proposals.

Cost of Living Adjustments to Pensions

Currently, cost of living adjustments (COLA) to pensions and deferred pensions are granted on an ad hoc basis by the government. In December 1988, the Board recommended that COLA of 1.5 percent be granted for pensions which commenced in 1988 and 2.3 percent be granted for pensions which commenced prior to January 1, 1988. The higher rate recommended for pre-1988 pensions was in recognition of the previous annual adjustment, which was less than 75 percent of inflation. The actual adjustment granted was 2.0 percent effective January 1, 1989. The adjustment was prorated for pensions which had been in payment for less than one year as at January 1, 1989.

Excerpts from the Act

The following excerpts of the Special Forces Pension Plan Act define the make-up and responsibilities of the Special Forces Pension Plan Board.

Establishment, 5 composition, term of office, etc.	(1) There is hereby established a board known as the Special Forces Pension Plan Board. (2) The Board shall consist of not fewer than 5 persons appointed members of the Board by the Lieutenant Governor in Council. (3) The Lieutenant Governor in Council shall appoint 1 of the members of the Board from among participants and another from among persons nominated by the employers. (4) A member of the board holds office for the term fixed in relation to him by the Lieutenant Governor in Council. (5) The Minister may prescribe the remuneration and expenses to be paid to members of the Board. (6) The Board may make rules respecting the calling of and the conduct of business at its meetings.
Chairman and 6 Vice-Chairman	(1) The Lieutenant Governor in Council shall designate one of the members of the Board to be the chairman and another member to be the vice-chairman of the Board. (2) The vice-chairman shall act as chairman when the office of chairman is vacant and when the chairman is absent or unable to act.
Support 7 Services	The Minister shall provide such supplies, services and accommodation as he considers necessary to enable the Board to fulfil its objects.
Objects of 8 the Board	The objects of the Board are (a) to conduct the hearing of appeals under Part 6; [Appeals] (b) to provide advice to the Minister under section 9; (c) where appropriate, to extend time limits and treat benefit choices as revoked under section 10; (d) to exercise and perform any other powers and duties assigned to it by this Act and the regulations; (e) to perform any other duties relating to the Plan that are assigned to it by the Minister.

**Advisory
functions
of the
Board**

- 9 The Board may advise the Minister respecting any matters relating to the Plan, including
- (a) the adequacy of contributions to meet benefits,
 - (b) adjustments to pensions under section 27,
 - (c) rates of interest for the purposes of the Plan,
 - (d) benefits,
 - (e) reciprocal agreements,
 - (f) recognition of prior service,
 - (g) eligibility and participation in the Plan, and
 - (h) the actuarial tables prescribed or to be prescribed by the Minister.

**Board's
power
to extend
time limits,
etc.**

- 10 (1) Where
- (a) a person fails to meet a time limit under the Plan,
 - (b) the failure will or could result in a person's obtaining different benefits than those he would have obtained had the time limit been met, and
 - (c) the Board is satisfied that the failure results from circumstances that import no material fault on the part of that person,

the Board may, on application to it, extend the time limit.

(2) Where

- (a) the circumstances set out in subsection (1)(a), (b) and (c) apply,
- (b) the benefit has been received or has commenced to be paid, and
- (c) the Board is satisfied that a choice, including a deemed choice, that would otherwise be irrevocable under section 40(2) could materially prejudice the best interests of the recipient or his dependants,

the Board may, on application to it, treat that choice as revoked, extend the time limit for making the choice and order any consequential adjustments in the benefits.

(3) Where

- (a) a benefit choice has been made, and
- (b) the Board is satisfied that
 - (i) the choice communicated to the Minister was not that which the person making the choice actually intended, and
 - (ii) the application mentioned in this section does not result from a change in a person's circumstances affecting the choice,

the Board may, on application made to it within 3 months from the date when the benefit was received or commenced to be paid, treat the choice as revoked, substitute for it the choice that, in the Board's opinion, the person originally intended to make and order any consequential adjustments in the benefits.

**Appeal
to the
Board**

35 (1) A party aggrieved by a decision of the Minister under or in relation to Parts 2 to 5 [Participation, Contributions, Pensionable Service, Benefits] or the prescribed provisions of the regulations, other than a decision under section 32 [i.e. the entering into and terms of reciprocal agreements] or one that could be the subject matter of an application under section 10, may appeal against that decision to the Board.

(2) A party wishing to appeal to the Board under this section must serve the chairman of the Board with a notice of appeal in the form prescribed by the Minister within 30 days of being notified in writing of the decision appealed against or within such longer period as the Board may, on application, allow.

(3) The notice of appeal must specify the decision appealed against and the grounds of appeal.

(4) The Board may identify persons who may be interested in the appeal and may give directions as to the persons to be served with the notice of appeal, whether or not they are parties.

(5) For the purpose of conducting an appeal under this section, the Board

(a) has all of the duties, powers, privileges and immunities given to a commissioner appointed under the Public Inquiries Act by sections 3, 4, 7 and 9 of that Act, and

(b) shall be deemed to be a person for the purposes of section 1(a) of the Administrative Procedures Act.

(6) The Board may confirm, vacate or vary the decision appealed against.

(7) The Board shall serve the appellant and persons who received a notice of appeal with a copy of its decision, including the reasons for the decision.

**Appeal to the
Court of
Queen's
Bench**

36 (1) A party aggrieved by a decision of the Board under section 34 may, within 30 days of the date of service of the Board's decision on him or such longer period as the Court may allow, appeal to the Court of Queen's Bench on a question of law or jurisdiction.

(2) The procedure in an appeal to the Court of Queen's Bench shall be the same as that provided in the Alberta Rules of Court for applications by originating notice.

(3) The Court of Queen's Bench, on hearing the appeal, may confirm, vacate or vary the decision of the Board or make any order it considers just.

Appendix B

Overview of the Plan

Provisions

The terms of the plan are as specified in the Special Forces Pension Plan Act. The Plan is a contributory defined benefit plan with payment of all benefits guaranteed by the Government of Alberta. Employee and employer contributions are required, in aggregate, at 14 percent of salary.

Pension benefits are based on two percent of the highest average pensionable earnings for five consecutive years times the number of years of pensionable service. Benefits are integrated at age 65 with Canada Pension Plan benefits. The normal form of a pension is for the life of the member. If the pensioner has a spouse, the benefit payable to a surviving spouse is 65 percent of the pension that was payable to a pensioner. Optional forms of pension on an actuarial equivalent basis are available subject to the "spousal protection" provisions. Cost of living adjustments (COLA) to pensions may be granted on an ad hoc basis by the government.

Normal pensionable age is 60. Participants may retire at any time without reduction in the amount of pension at age 55 if five years of pensionable service has been accumulated, or at any age if at least 25 years of pensionable service has been accrued.

The Plan also makes provision for those members who die prior to retirement and have accumulated at least five years of pensionable service. In such cases the surviving spouse is entitled to either a spousal pension or a lump sum benefit. The spousal pension is equal to 65 percent of the normal pension the member would have been entitled to, and in certain cases, takes into account potential service which would have accumulated had the member lived to age 60. A beneficiary other than a spouse must accept a lump sum benefit.

Membership Statistics

At March 31, 1988 there were nine employers participating in the Plan, 2,531 active contributors, and 323 pensions in payment. The average pension in payment was \$2,070 per month to a former participant and \$1,340 per month to a surviving spouse.

Pension Fund

The Pension Fund was established in 1981 by a transfer of \$1,100 million from the General Revenue Fund. The Fund will help meet the costs of pension benefits being earned under the six plans administered and guaranteed by the province.

At March 31, 1988, the Pension Fund had assets of \$3,995 million comprising a diversified portfolio of government and corporate bonds, money market securities, mortgages and equities.

For all plans in 1987-1988, the contributions made by employers and employees exceeded the benefits paid by \$107 million. The comparable amount for the previous year was \$138 million. In addition, the Fund earned \$389 million in income, resulting in a net increase in fund equity of \$496 million.

For the Special Forces Pension Plan, 1987-1988 contributions were \$15 million compared to disbursements of \$8 million, for a net transfer to the Fund of \$7 million.

Actuarial Valuation

Independent actuarial valuations of the six government administered pension plans were commissioned by Alberta Treasury as at March 31, 1988. The purpose of the valuations was to quantify the total obligation of the Alberta Government in respect of its guarantee of the benefits provided by the plans.

The estimated accrued liabilities of all six plans were \$8,916 million. These liabilities, when compared to Pension Fund assets of \$3,995 million, left an unfunded liability of \$4,921 million as at March 31, 1988. The estimated accrued liabilities attributable to the Special Forces Pension Plan were \$534 million as at March 31, 1988.

The normal actuarial cost of the Special Forces Pension Plan shown by the March 31, 1988 valuation was 26.5 percent of payroll using the attained age actuarial cost method. Using the unit credit actuarial cost method, the cost was 26.0 percent of payroll.

It was assumed in performing the valuations that ad hoc cost of living increases to pensions and deferred pensions would be granted annually at a rate equal to 75 percent of inflation.